

DO OWNERS EARN MORE THAN ASSOCIATES?

By Timothy A. Brown



I received a revealing financial statement the other day.

From a doctor who practiced as a phenomenally successful associate for many years.

As with most Associates, the ownership motive was a large part of her career plan.

The adventure into practice ownership began about 3 years ago.

She was fortunate enough to be able to locate a property for sale which eliminated the landlord threat.

There are too many providers in the immediate area, yet the practice is generating about \$750,000 annually.

That is about 20 to 30% more income than the average new startup at this early stage.

Data reveals that annual gross income for a 3-year-old cold start is under \$500,000.

There will always be outliers and exceptions.

Let's look at her financial journey:



- The last year's net income (as an Associate) was ~\$301,000.
- 1st year as an owner net income was ~\$5,000.
- 2nd year net income was ~\$160,000.
- 3rd year net income will be ~\$225,000

And this is a success story for a 3-year-old start up!



Let's do the math:

1. During the first three years of ownership her total net income will be ~\$400,000.
2. Had she remained a successful dental associate, her net income for the last three years would be over \$900,000. More likely over \$1 million!

What? That's 60% **MORE net income working as an associate versus an owner!**

Now let's talk about the time invested to start and operate this new practice.

I spoke about this in previous articles titled "**Ownership Hours**" and it is easy to invest 1,000 'sweat equity' hours in the early years.

For this client, I estimate that she invested almost 2,000 hours of unpaid ownership hours.

What could she have done with that time had she remained a dental associate?

Yes, if she were to sell the practice today there is some goodwill to be sold and that will be the return on investment in exchange for the ownership hours invested.

Pride of ownership has no price, and it cannot be appraised.

Cash flow can be measured.

The law of diminishing returns suggests that goodwill will peak at some point and then because she is not cashing in and realizing the capital gain of the goodwill, each year she does not sell, the time-adjusted present value of her hours goes down.

Ask your accountant about this. If they do not understand, please ask me.

While she is above average and doing very well in my view, she is frustrated, and the economics of ownership are not working out for her.

The staff burden is enormous and that is why she called me the other day.

"Give it another two or three years" is what I suggested, but I do not think she will wait that long.

She is likely to sell the practice and keep the building to collect the rent and go back to being an associate dentist.

They call it freedom from ownership.

No hassles, no staff problems, no landlords, no stress.

Ask yourself; is it better to be an owner or to be an associate?

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